THE INFLUENCE OF CORPORATE GOVERNANCE

ON EXPROPRIATION

By:

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Fitrianna Parahita

TABLE OF CONTENTS

LIST OF TABLES

LIST OF PICTURES

ABSTRACT

THE INFLUENCE OF CORPORATE GOVERNANCE ON EXPROPRIATION

By:
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The concentrated ownership structure in Indonesian company led to agency conflicts between controlling shareholder and minority shareholder, agency problem type II. This problem may lead to expropriation used by the controlling shareholder to maximize their own interest against the minority shareholders. This research primarily aims to examine the effect of corporate governance on expropriation. The population research is Indonesian public companies in 2016. Sample is selected using purposive sampling technique resulted in 91 samples. The results show that corporate governance recommendations, frequency of board commissioner meeting and frequency of audit committee meeting affect to the expropriation. While, independent board commissioner does not affect to the expropriation. This study contributes to agency theory type II, conflicts between controlling and minority shareholders, which can be overcome through corporate governance.

Keywords: *corporate governance, expropriation, related party transaction, agency theory type II*

ABSTRAK

PENGARUH TATA KELOLA TERHADAP EKSPROPRIASI

Oleh:
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Struktur kepemilikan di Indonesia menyebabkan munculnya konflik keagenan antara pemegang saham pengendali dan pemegang sahamm non-pengendasi yang dikenal dengan masalah agensi tipe II. Masalah ini akan menimbulkan ekspropriasi oleh pemegang saham pengendali untuk memaksimalkan keuntungan mereka sendiri terhadap pemegang saham non-pengendali. Penelitian ini bertujuan untuk menguji pengaruh tata kelola terhadap praktik ekspropriasi. Populasi di dalam penelitian ini adalah perusahaan public di Indonesia tahun 2016. Pemilihan sampel menggunakan teknik *purposive sampling* menghasilkan 91 sampel. Hasil dari penelitian ini menunjukan bahwa rekomendasi tata kelola, frekuensi rapat dewan komisaris dan komite audit berpengaruh terhadap ekspropriasi. Sedangkan, komisaris independen tidak berpengaruh terhadap ekspropriasi. Penelitian ini berkontribusi pada teori agensi tipe II yang membahas konflik pemegang saham pengendali dan non-pengendali, yang dapat diatasi dengan menggunakan mekanisme tata kelola.

Kata Kunci: *tata kelola, ekspropriasi, transaksi pihak berelasi,, teori agensi tipe 2*

CHAPTER I

INTRODUCTION

1.1 Research Background

Indonesia is a country adopting civil law system as a part of the Dutch colonial law legacy. One of the character of a country which apply civil law is poor investor protection (Hung, 2000). Its impact on accounting practice is an open opportunity for controlling shareholder to manage unfair transactions which will harm the non-controlling shareholder (Subekti, 2012). This kind of transaction is a form of expropriation through related party transaction. Expropriation is defined as a misuse of one's control powers and enrich controlling shareholder by maximizing their own welfare at the expense of minority shareholders (Claessens, Djankov & Lang, 1999). Expropriation is done by the controlling shareholder as an insider who know more about the condition of the company.

Controlling shareholder refers to an individual, family or institution that owns control either directly or indirectly in the public company on a certain level and also commonly known as majority shareholder (Susilowati & Sanjaya, 2015). Controlling shareholder typically owns at least 50% or more shares and have greater control over the business as well as taking part of managerial responsibility. While non-controlling shareholder or minority shareholder is those who own less than 50% of shares and doesn't have control over the company (Siregar & HM, 2006).

Expropriation takes place in a country where the ownership structure is highly concentrated and is dominated by family ownership in large numbers such as in Indonesia and other Asian countries. While in Commonwealth countries such as United States and Europe, ownership structure is more dispersed. The concentrated ownership structure creates a divergence between control rights and cash flow right at a specific party as controlling shareholder such as family. When control right is greater than cash flow right, it creates a motivation for controlling shareholder to maximize their own benefit leading to expropriation (Porta, Lopez & Shleifer, 1999; Claessens & Fan, 2002). Furthermore, Claessens, Djankov and Lang (2000) in nine East Asian countries including Indonesia found that more than two thirds of the public companies are controlled by a single shareholder, owned by family. This study also supported by a survey conducted by PWC (2014) that more than 95% Indonesian's companies are family owned business that spread over in various fields of industry and organization. The survey mentioned that the company belonging to various industries listed in Indonesian Stock Exchange (IDX) are manufacturing (50%), transportation (13%), construction (7%), business activities (13%) and others (5%). The great number of family ownership creates a significant aspect that influence the decision making and managerial responsibility in the company.

Concentrated ownership structure can minimize the agency conflict between management and shareholder since this type of structure has power to control management decisions. The agency problem between agent and principal can be overcome, but the problem of conflict of interest between controlling shareholder and minority shareholder began to emerge, agency problem type II (Villalonga & Amit, 2006). This problem described in the Agency theory type II is the main theory used in this research. Having said earlier, when the controlling shareholder has more control over the company, it may result in the expropriation. Expropriation can take variety of forms, in the simplest way, when the controlling shareholders simply steal the profits or sell the assets, outputs, and their shares below the market prices to another firm that they own (Porta *et al.*, 1999).

This research uses expropriation as the independent variable with the proxy of related party transactions of sales. Related party transaction is normal, however several researches indicated that such transaction could be used to expropriate against the minority shareholder by manipulating the transfer pricing. This research uses related party transaction that represent the tunneling activities containing the conflict of interest hypothesis explained in the agency theory.

The phenomenon related with expropriation resulted in the discrimination of minority shareholder in Indonesia is in Bank Century case in 2008 in which Robert Tantular as the controlling shareholder on the disbursement of bank credit to his two affiliated companies namely PT. Wibowo Wadah Rezeki and PT. Accent Investment Indonesia also demonstrated the weakness of the governance in Indonesia (Anonim, 2010). Another case is PT. Sumalindo Tbk in 2012. PT. Sumalindo Tbk is one of the biggest wood distributors in Indonesia and owns more than 30% of Indonesian forest market. This case was started with one of its minority shareholder Deddy Hartawan who feel burdened by the management of PT. Sumalindo who violated the principles of good corporate governance. He then submitted a petition to the district court in South Jakarta to inspect the company that break the capital market regulation resulting in the detriment of the minority shareholders. PT. Sumalindo Tbk made sales of its subsidiary company's shares, PT. Sumalindo Hutami Jaya below the market price and without informing to shareholders general meeting. They also never mentioned the profits made by PT. Sumalindo Hutami Jaya in the financial report. In this case, PT. Sumalindo Tbk shows that they lack of transparency and accountability which reflect in the difficulty in implementing corporate governance (Syabani, 2014; Kurniawan, 2013).

Corporate Governance (CG) is one of the mechanisms of investor protection. The corporate governance is considered to limit the expropriation through the improvement of corporate governance. IFC (2014) defines corporate governance as the structures and process for the direction and control of companies. The measurement of corporate governance used by prior research to control agency problem type II are mostly done by measuring each component of corporate governance in which belong to conventional corporate governance mechanism. However, the results have been inconsistent. Claessens & Fan (2003) added that the conventional corporate governance mechanism used to control agency problem type I are less effective and not strong enough to mitigate the agency problems in Asia with controlling and minority shareholder conflict, agency problem type II.

Therefore, the current study raises new measurement of corporate governance which is corporate governance recommendations issued by Financial Services Authority (Otoritas Jasa Keuangan/ OJK) No. 32/SEOJK.04/2015. Under the new rule, there are 25 recommendations in 5 aspects and 8 principles in which public companies are only required to disclose the recommendation in their annual report starting from 2016 since it just became effective from 17th November 2015. The researcher expects that the result will be more effective because the new recommendations are build based on the international corporate governance practice including all aspect and principle of corporate governance. In addition, this research also uses the conventional corporate governance mechanisms consist of board commissioner meeting frequency, audit committee meeting frequency and the number of independent commissioner as the independent variables as well.

1.2 Research Question

Based on the research background, hence the research questions of this study are:

1. Does corporate governance recommendations affect expropriation in Indonesian company listed in Indonesian Stock Exchange (IDX) in 2016?
2. Does board commissioner meeting frequency affect expropriation in Indonesian company listed in Indonesian Stock Exchange (IDX) in 2016?
3. Does audit committee meeting frequency affect expropriation in Indonesian company listed in Indonesian Stock Exchange (IDX) in 2016?
4. Does the number of independent commissioner affect expropriation in Indonesian company listed in Indonesian Stock Exchange (IDX) in 2016?

1.3 Research Objective

Based on the research problems mentioned above the objectives of this study are:

1. To provide the empirical evidence on the influence of corporate governance recommendations on the expropriation in Indonesian company listed in Indonesian Stock Exchange (IDX) in 2016.
2. To provide the empirical evidence on the influence of board commissioner meeting frequency on the expropriation in Indonesian company listed in Indonesian Stock Exchange (IDX) in 2016.
3. To provide the empirical evidence on the influence of audit committee meeting frequency on the expropriation in Indonesian company listed in Indonesian Stock Exchange (IDX) in 2016.
4. To provide the empirical evidence on the influence of the number of independent commissioner on the expropriation in Indonesian company listed in Indonesian Stock Exchange (IDX) in 2016.

1.4 Research Contribution

The result of this research is expected to contribute to:

1. Theoretical contribution

   The result of this research is contributed to Agency theory type II. The theory discusses the conflict of interest between majority or controlling shareholders and minority or non-controlling shareholders which result in the expropriation against minority shareholders.

2. Practical contribution

   The result of this research is expected to show that corporate governance will be more effective to reduce the expropriation in Indonesia. Moreover, the result of this research also expects that the company including the majority shareholders would be more aware in implementing good corporate governance in their company.

CHAPTER II

LITERATURE REVIEW

2.1 Agency Theory

The agency theory has been extensively used by prior studies to explain the relationship between principal and agent. According to Jensen & Meckeling (1976), the agency relationship exists when principals (owners or shareholders) formed a contract with agent (manager) to perform some tasks on behalf of the principal. However, manager tend to maximize their own personal interest, thus a conflict of interest between principal and agent arise which is commonly called agency problem. This conflict mostly happens in a country where the structure is dispersed due to the separation of ownership and control between owner and manager such as United States. This agency conflict could be reduced by concentrated ownership structure where the owner or shareholder is also a part of the management. However this concentrated ownership structure leads to another problem that is a conflict between majority shareholders and minority shareholders typically called agency problem type II (Villalonga & Amit, 2006). This problem is well described in the agency theory type II which is the main theory used in this research.

The development of agency theory has shifted the focus of the researcher from the traditional conflict of interest between principal and agent - agency problem type I (Jensen *et al.*, 1976) towards another conflict of interest between majority or controlling shareholder and minority shareholder – agency problem type II (Villalonga *et al.*, 2006). In agency theory type II, the controlling shareholder act as an agent who manage the company while minority shareholder act as a principal. Several studies have conducted research in Asia (Claessens *et al.*, 2000) found that the majority of companies in Asia are concentrated structure and owned by family, thus the company is controlled by a single shareholder. The controlling shareholder obviously has more power and control in the company leading to the risk of expropriation. Related party transaction (RPT) that represent tunneling and contain conflict of interest used by controlling shareholder to take their own interest is a form of expropriation. Hence, a set of governance mechanism called corporate governance is needed to protect the right of minority shareholder (Shleifer *et al.*, 1986). The agency theory type II suggest that the expropriation can be minimized through improvement of corporate governance mechanisms.

2.2 Corporate Governance

The term corporate governance has a broad and various definition. It was firstly introduced by the Cadbury Committee in 1992 in their report. According to Cadbury report (1992), corporate governance is a system by which companies are directed and controlled. Corporate governance is one of the mechanisms of investor protection. The corporate governance practices vary across countries depending on its history, culture, legal system and so on. In the other words, the corporate behavior is influenced by history and culture of the country. The major difference of the corporate governance framework among countries is the two-tier separation between the board of management and the supervisory board. In Commonwealth countries and USA where the corporate's structure is dispersed, a single tier system is implemented where the board of director have both supervisory and management role at the same time. While in most of Asian countries including Indonesia adapt the two-tier system consisting of board of commissioner and board of directors where supervising and management are formally separated (Rick *et al.*, 2005).

The OECD principles have been used as a framework and reference for corporate governance worldwide. The OECD corporate governance framework is built on four core values: fairness, responsibility, transparency and independency. Referring to those core values, they are intended to protect the shareholder and stakeholder rights, appropriate disclosure and effective board practices. The Indonesia's Corporate Governance Code is one of the many national corporate governance codes developed based on the OECD principles and contain certain principles which conform to international best practices (IFC, 2014). These principles are necessary to attain company's sustainability and smooth operations. The principles are:

1. Transparency

   Company must provide all issues, materials and relevant information in the easiest way to be understood by the stakeholders. Companies also should take initiative to disclose all issues not only required by the laws and regulations, but also other information crucial to help the shareholders, creditors and other stakeholders in decision making.

2. Accountability

Company must be responsible for its performance in a transparent and reasonable way. Thus, company must be managed properly and measurably that align with the interest of shareholders and stakeholders.

3. Responsibility

   Company shall comply with the laws and regulations to fulfill its responsibilities for communities and environment in order to maintain long term sustainability of the business and recognized as Good Corporate Citizen (Corporate Social Responsibility).

4. Independency

   Company must be managed independently in order to strengthen the implementation of good corporate governance with power balance to minimize the domination within the companies and intervention from other party.

5. Fairness

   Company must always consider the shareholder's interest and other stakeholder based on the equality and fairness principle. (KKNG, 2006)

2.2.1 Corporate Governance Recommendations

Indonesia Financial Services Authority which is commonly known as Otoritas Jasa Keuangan (OJK) is an independent institution established in 2011 aimed to regulate, supervise, examine and investigate the financial services sector in Indonesia. On 17th November 2015, OJK raised new standard of corporate governance practice for public companies in order to improve corporate governance in Indonesia. Under OJK Rule No. 21/POJK.04/2015 and OJK Circular Letter No. 32/SEOJK.04/2015 on the Implementation of Public Companies' Corporate Governance Guidelines in which public companies are required to implement the OJK's recommendations under the Corporate Governance Guidelines or if any of the recommendations can't be met, it must be disclosed properly in the annual reports as well as explain the reason of not implementing the OJK's recommendations. The rule and guidelines became effective on 17th November 2015, however public companies are only required to disclose the OJK's recommendations starting from their annual reports for the period ending on 31st December 2016 (Hadiputranto, Hadinoto & Partners, 2016).

Under the Corporate Governance guidelines, there are 25 recommendations including 5 aspects and 8 principles. These 25 recommendations are:

1.) Public Company has the manner or technical procedures to open or closed voting that promotes independency and interest of shareholders.

2.) All members of the Board of Directors and members of the Board of Commissioners of Public Company attend the Annual GMS.

3.) Upload the Summary of GMS at the Public Company's Website at least for one (1) year.

4.) Public Company has communication policy with shareholder or investors.

5.) Public Company discloses the policy on Public Company's communication with shareholders or investors on the Website.

6.) Determination the number of the Board of Commissioners members by considering the condition of Public Company.

7.) Determination of composition of the Board of Commissioners members by considering the diversity of expertise, knowledge and experience needed.

8.) The Board of Commissioners has a self-assessment policy to assess Board of Commissioners' performance.

9.) Self-assessment policy to assess Board of Commissioners performance is disclosed in the Public Company's Annual Report.

10.) Board of Commissioners has a policy related to resignation of a member of Board of Commissioners if involved in financial crime.

11.) Board of Commissioners or Committee conducting Nomination and Remuneration function in prepares a policy on succession process of Board of Directors members Nomination.

12.) Determination of number of Board of Directors members has considered the condition of Public Company as well as effectiveness in decision-making.

13.) Determination of Board of Director composition with the consideration of diversity in skill, knowledge, and experience needed.

14.) Member of Board of Directors who oversee accounting or finance has expertise and/or knowledge in accounting.

15.) Board of Directors has a self-assessment policy to assess Board of Directors performance.

16.) Self-assessment policy to assess Board of Directors performance is disclosed in Public Company's Annual Report.

17.) Board of Directors has a policy related to resignation of a member of Board of Directors if involved in financial crime.

18.) Public Company has a policy to prevent insider trading

19.) Public Company has anti-corruption and anti-fraud policies

20.) Public Company has a policy on selection and improvement of supplier or vendor capacities

21.) Public Company has a policy on fulfillment of creditor's rights

22.) Public Company has a policy on Whistleblowing system

23.) Public Company has a policy on provision of long-term incentive to the Board of Directors and employees

24.) Public Company use of information technology more broadly in addition to the Website as a media of transparency of information.

25.) Annual Report of Public Company discloses the last beneficiary in Public Company's shareholding of at least five percent (5%), in addition to disclosure of the last beneficiaries in Public Company's shareholding through ultimate and controlling shareholders.

The conventional corporate governance mechanism used to control agency problem type I is less effective and not strong enough to mitigate the agency problems in Asia with controlling and minority shareholder conflict, agency problem type II (Claessens *et al.*,2003 ; Atmaja, 2012). Therefore, other types of corporate governance mechanism are necessary to complete the conventional corporate governance mechanism. This research is different with prior research since it uses the new measurement of corporate governance recommendations based on the new standard raised by OJK, noted in No. 21/POJK.04/2015 and OJK

Circular Letter No. 32/SEOJK.04/2015 as the new independent variable as well as the conventional governance mechanism.

2.3 Expropriation

Expropriation in general is defined as the action by the state or an authority of taking property from its owner for public use or benefit. However, in reality expropriation is mostly lead in the negative way. When the controlling shareholders have more control in the company to influence the management in determining the company's decision, it may result in the expropriation. Hence, expropriation could be defined as the misuse of one's control powers to maximize their own welfare and extract wealth from minority shareholders (Claessens *et al.*, 2000). Tunneling and propping are two forms of expropriation activities. Tunneling refers to a transfer of resources out of company to its controlling shareholder through related party transaction. In other words, tunneling is a transfer of resources from lower level firm to higher level firm (Hamid, 2016). For instance, subsidiary company transferring assets to parent company at a lower value than its actual value, resulting the loss of the transaction in the dividend received by the shareholder of subsidiary company. Furthermore, Porta *et al.*, (1999) also defined expropriation can take variety of forms, in the simplest way is when the controlling shareholders simply steal the profits or sell the assets, outputs, and their shares below the market prices to another firm they own.

Two forms of tunneling according to Johnson, Porta, Lopez & Shleifer (2000). First, when the controlling shareholder transfer of resources from company for their own benefit through self-dealing transactions which include asset sales, contracts of transfer pricing beneficial to controlling shareholder, excessive executive compensation, loan guarantees and so on. Second is when the controlling shareholder increase their share without transferring any assets through dilutive share issues, insider trading, creeping acquisitions or other financial transactions that discriminate against minority shareholder.

Meanwhile, propping is the opposite of expropriation. Propping happens when the controlling shareholder of a parent company transfer its economic of resources to its subsidiary company to support the financial difficulties. In this case, propping tends to act in the best interest of minority shareholder to ensure that its subsidiary company is running smoothly.

This research uses expropriation as the independent variable with related party transactions of sales as the measurement. Related party transaction is normal, however several researches indicated that such transaction could be used to expropriate against the minority shareholder by manipulating the transfer pricing. Related party transaction indicating the tunneling activities seems to be harmful by simply transfer resources from the firm for his own benefit through self-dealing transactions and these can be considered as theft or fraud which is illegal everywhere (Johnson *et al.*, 2000).

2.3.1 Related Party Transactions (RPT)

According to Indonesian Financial Accounting Standard (Pernyataan Standar Akuntansi Keuangan / PSAK) No. 7 that that every entity must disclose entity's transactions with related parties. A related party is a person or entity related to the entity that is preparing its financial statements. While, a related party transaction is a transfer of resources, services, or obligations between related parties regardless of whether the price is charged. Related parties under PSAK 7 are:

a) A person or a close member of that person's family is related to a reporting entity if that person:

(i) has control or joint control over the reporting entity;

(ii) has significant influence over the reporting entity; or

(iii) is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.

b) An entity is related to a reporting entity if any of the following conditions applies:

(i) The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment defined benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

According to Gordon, Henry, & Palia (2004), there are two alternative perspectives of related party transaction (RPT). The first view is abusive RPT based on the conflict of interest hypothesis that can be explained by agency theory and it's used by the controlling shareholders to maximize their personal gain through tunneling. The second view is efficient RPT based on the efficient transactions hypothesis. This research uses abusive RPT based on the conflict of interest hypothesis which is a part of agency theory.

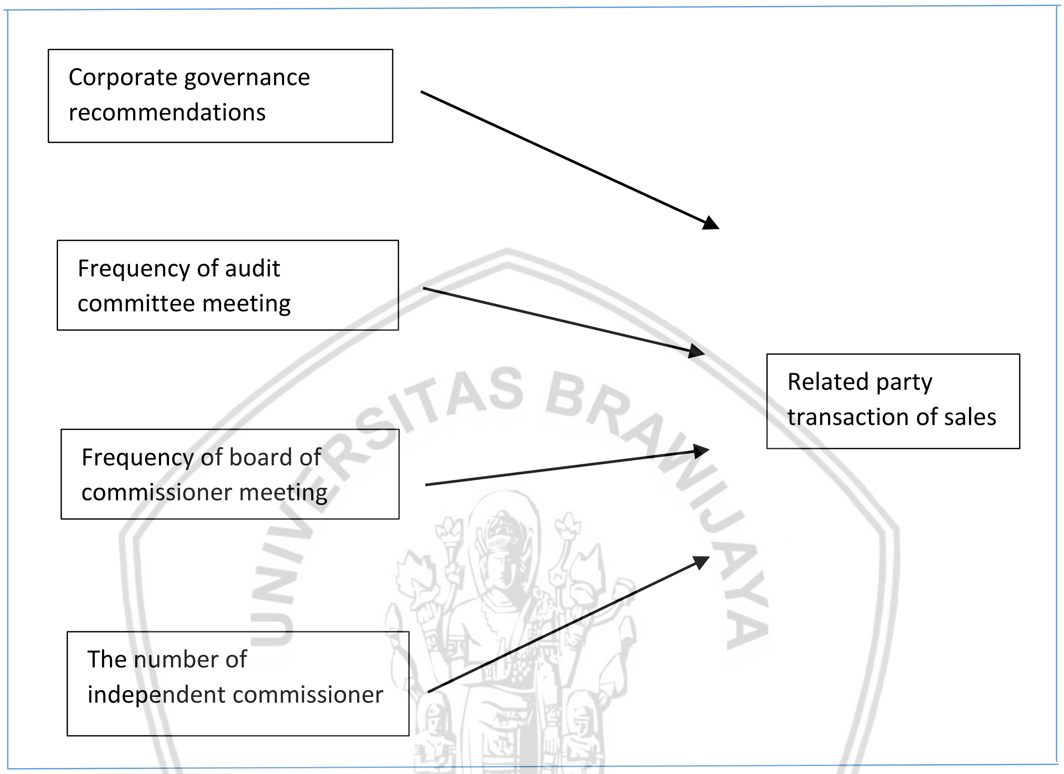
2.4 Research Framework

This research examines the influence of corporate governance on the expropriation. The characteristic of Indonesian firm is concentrated ownership structure encouraging the controlling shareholder to expropriate against the minority shareholder by abusing their control power to maximize their own benefit. This problem is mostly known as agency problem type II (Villalonga *et al.*, 2006). The theory that underlies the relationship between corporate governance and expropriation is the agency theory, specifically agency theory type II. Based on the theory, the conflict of interest hypothesis is in line with related party transaction that represent tunneling and can be used by the controlling shareholder to expropriate against the minority shareholder. The agency theory type II suggest that the expropriation can be minimized through improvement of corporate governance mechanisms.

The conventional corporate governance mechanism used to control agency problem type I is less effective and not strong enough to mitigate the agency problems in Asia with controlling and minority shareholder conflict, agency problem type II (Claessens *et al.*, 2003; Atmaja, 2012). Therefore, this research is quite different with prior research since it uses new measurement, the corporate governance recommendation based on the new standard raised by OJK rule No. 21/POJK.04/2015 and OJK Circular Letter No. 32/SEOJK.04/2015 is used to measure the independent variable. In addition, this research also uses the conventional corporate governance mechanism as the independent variable inducing the board commissioner meeting frequency, audit committee meeting frequency, the number of independent commissioner. While, the related party transaction of sales is to measure the dependent variable, the expropriation. In short, the relationship between corporate governance and expropriation is summarized in the following picture below.

Picture 2. 1

Research Framework



2.5 Previous Studies and Hypothesis Development

In this section, prior studies that examine the relationship between corporate governance and expropriation will be briefly reviewed and explained. The findings of the previous studies will be useful for the current study and provide the foundation for the relationship between variables and thus hypotheses can be developed (Sekaran & Bougie, 2013). The focus of corporate governance is grounded by the agency theory to protect the right of minority shareholders against misappropriate actions by the controlling shareholder thus reduce the risk of expropriation.

2.5.1 The influence of corporate governance recommendations on expropriation

There are several empirical studies that support the positive link between corporate governance and expropriation. First, a recent study conducted by Yeh, Shu & Su (2012) in Taiwanese listed firms revealed that corporate governance could help to reduce tunneling activities by using corporate governance index as the measurement. This finding is consistent with the agency theory that justify the link between corporate governance and expropriation. Furthermore, Chien (2010) also found that corporate governance mechanism transfers the related party transactions from conflict of interest to efficient transactions in which helpful to company's interest. This study used audit quality and independent boards as part of corporate governance mechanism play moderating roles on the relationship between related party transactions and firm performance.

On the contrary, a research conducted by Sari, Djajadikerta, & Baridwan (2014) revealed that corporate governance mechanism could not explain the tunneling activities because independent board, audit committee and corporate structure variable including managerial ownership, foreign institutional ownership, domestic institutional ownership and state ownership structures are found to be insignificant factors for predicting the tunneling behavior in companies listed in IDX. So far, the studies that examines the relationship between corporate governance and expropriation are still very limited and the results have been inconsistent. This inconsistent research result motivated this study to test it further. Based on the explanation above, the hypothesis of the current study is:

H1: Corporate governance recommendations negative affect to expropriation

2.5.2 The influence of the number of independent commissioner on expropriation

According to the regulation of OJK no.33/POJK.04/2014, the public companies must have independent members in its board of commissioners. The public company must have minimum one independent commissioner or at least 30% of the board of commissioners. Independent commissioners are outsiders who are not affiliated with the controlling shareholder, board of director and other member in the board of commissioners. The criteria for independent commissioners that have been set by the regulation are (1) outsider of the public company, (2) don't have any shares of the public company either directly or indirectly, (3) don't affiliated with the controlling shareholders, director and within the board commissioner, (4) don't have relationship business with public company either directly or indirectly.

Prior research such as Chien (2010), Beasley (1996) and Dechow, Sloan & Sweeney. (1995) suggested that larger proportions of outside directors (commissioner) significantly reduce financial fraudulence, due to the strict controlling and monitoring from the independent commissioners. Therefore, the functions of independent commissioner can enhance the controlling and monitoring process in the company thus they would be able to reduce the level of expropriation. However, research by Mustafa, Latif & Taliyang (2011) and Sari *et al.*, (2014) found that board independent is not an effective element in preventing the tunneling activities. The different research results are more due to the different state conditions in the protection of investors. Based on the explanation above, the hypothesis of the current study is:

H2: The number of independent commissioner negative affect to expropriation

2.5.3 The influence of board commissioner and audit committee meeting frequency on expropriation

The effectiveness of board commissioner and audit committee can be assessed through the frequency of meetings held. According to the regulation of OJK no.33/POJK.04/2014, the board commissioners should be at least meet six times a year. Farber (2005) stated that the audit committees of firms engaged in fraudulent activities have less independent members and do not meet frequently. This implied that the audit committee meeting frequency forces the company to have better financial reporting quality. The higher the frequency of audit committee meetings is often associated with lower financial statement fraud and lead to better audit quality (DeZoort, Hermanson, Archambeault & S. Reed 2002). In order to provide effective supervision on financial information disclosure, the committee needs to have more frequent meetings (Rahmat, Iskandar & Saleh, 2009).

The meeting is a communication tool used by the board commissioner as well as audit committee in assessing, evaluating, and monitoring the company and thus the more frequent meetings have additional advantages. Research by Yin , Gao, Li, & Lv (2012) found that the proportion of shares owned by majority shareholder is negatively associated with the number of audit committee meetings in Chinese listed companies. However, Kamarudin, Ismail, & Alwi (2014) showed that there is no relationship between audit committee meeting frequency and corporate fraud in Malaysian listed companies. Therefore, the more frequent meetings held forces the company to have better financial reporting quality and thus limit the risk of related party transaction that represent expropriation. Based on the explanation above, the hypothesis of the current study are:

H3: Board commissioner meeting frequency negative affect to expropriation

H4: Audit committee meeting frequency negative affect to expropriation

CHAPTER III

RESEARCH METHOD

3.1 Type of Research

The current research uses quantitative method, to examine relationship among variables and determine cause and effect interactions between variables. Quantitative method research is also aimed to test the hypothesis. According to Sekaran *et al.,* (2013) hypothesis testing is undertaken to explain the variance in the dependent variable or to predict organizational outcomes. Furthermore, the explanation concerning the sample selection, variables' measurement, data collection, statistical model and data analysis method are provided in the next sections.

3.2 Population and Samples

Sekaran *et al.,* (2013) defines populations as the whole group of people, events, or thing of interest that the researcher attempts to investigate. While sample, is a subset of the population. The population in this study are Indonesian company listed on the Indonesian Stock Exchange (IDX) in the period of 2016. Firstly, the justification regarding the time period's selection, 2016, is due to the fact that the new standard of corporate governance practice as the independent variable used in this research issued by OJK became effective on 17th November 2015, in which the public companies are only required to disclose them in their annual report starting from the period ending on 31st December 2016. Therefore, the data is the most recent and up to date which is useful to reflect the information and condition of the sample's companies.

The sample of this research is selected using one of nonprobability sampling method, which is purposive sampling. Purposive sampling is a sampling method where the samples are chosen based on the several criteria and judgement (Sekaran *et al.*, 2013). The criteria designed by the researcher are as follow:

1. Indonesian company must be listed in IDX in the period of 2016.
2. Indonesian company conduct transactions of sales with related party.
3. Indonesian company discloses the recommendations issued by OJK.
4. The financial statements are presented in Rupiah currency and must be available as well as audited by the independent auditor during the period.

Given that, the following table demonstrates the research sample utilized in this study:

Table 3. 1

Research Sample

No	Description	Total
1	Total listed company in IDX in 2016	534
2	The annual report not available	57
3	Financial statement using other currency than Rupiah	51
4	No related party transaction of sales	359
5	No new recommendations disclosed	364
	Total samples	91

3.3 Data Collection Method

This research uses secondary data as the main data source. Secondary data refers to the data which is not directly gathered from the primary source such as questionnaire but it is gathered by someone or organization other than the researcher such as database and report (Sekaran *et al.*, 2013). This research mainly obtains the data from the official website of Indonesian Stock Exchange (IDX) www.idx.co.id and Galeri Investasi BEI Universitas Brawijaya, comprised the annual report and financial report of 2016. Moreover, the documentation technique is uses in this research by gathering necessary information from annual report and financial report related with corporate governance and related party transaction.

3.4 Research Variables and Measurement

Research variables uses in this study includes independent variable and dependent variable. The description on each variable is provided in the next subsections.

3.4.1. Dependent Variables

1. Related party transaction of sales (RPTs)

The dependent variable uses in the current study is expropriation referring to the misuse of one's control powers by controlling shareholder to maximize their own welfare and extract wealth from minority shareholder. The proxy uses in this study is related party transaction of sales that represent tunneling in which refer on the previous study by Cheung, Jing, Rau, & Stouraitis (2009). Following Cheung *et al.*, (2009), there are indications that related party transactions are made through tunneling purposes:

1. Acquisitions of assets by listed company from related parties
2. Sale of assets by listed company to related parties
3. Asset swaps between listed company and its controlling shareholder
4. Trade of goods or services between listed company and its controlling shareholder
5. Cash payments, loans or provision of loan guarantees by listed company to its controlling shareholder

These transactions are identified to have more tendency toward the tunneling activities since they could be used by the company to tunnel resources out to its related party through unfair pricing and thus lowering the value of company at the stake of minority shareholders (Sari *et al.*, 2014). However, this research only uses related party transaction of sales measured by the ratio of total transaction of sales to related party divided by net sales. The higher the ratio means the higher of the transaction represent the tunneling purposes that could be used to expropriate against the minority shareholder. This information can be obtained in the notes of financial statement.

$$\text{Related Party Transaction of Sales (RPTs)} = \frac{\text{Total transaction of sales to related party}}{\text{Net sales}}$$

3.4.2. Independent Variables

1. Corporate governance recommendations (GCG)

The first independent variable uses in current study is corporate governance recommendations issued by OJK No. 32/SEOJK.04/2015. Under the new rule, there are 25 recommendations in 5 aspects and 8 principles. The rule requires public companies to implement the recommendations by stating comply or implemented in the annual report, otherwise if any of the recommendations haven't been met then they must be disclose properly in the annual report by explaining the reason. GCG is measured by checklist by scoring 1 on each recommendation if it's comply out of 25 recommendations (total 25 recommendations). Hence, if a company complies all recommendations it will be given 25 out of 25 which is the final score is 1.

2. Conventional corporate governance mechanisms

The measurement of corporate governance on the prior research are mostly done by measuring each component of corporate governance in which belongs to conventional corporate governance mechanism. However, the conventional one is less effective and not strong enough to tackle the agency problem type II in Indonesia leading to inconsistent result. The conventional corporate governance mechanism used in this study are describe below.

1) The number of independent commissioner (INDCOM)

   Independent commissioner is outsider not affiliated with the controlling shareholder, board of director and other member in the board of commissioner. OJK requires public company to have minimum one independent commissioner or at least 30% of the board commissioner. Thus, the larger proportions of independent commissioner could enhance strong controlling and monitoring process in the company. The number of independent commissioner is measured by

$$\text{INDCOM} = \frac{\text{The number of independent commissioner}}{\text{Total number of board commissioner}}$$

2) Frequency of meeting of board commissioner (FMBOC)

Frequency of meeting of board commissioner is number of meeting conducted by the board commissioner of Indonesian public companies. The higher the frequency of board commissioner meeting is associated with better financial reporting quality and thus limit the risk of related party transactions that represent tunneling activities. The board commissioner meeting frequency is measured by

FMBOC=	Total number of meetings held by board commissioner

3) Frequency of meeting of audit committee (FMAUC)

Frequency of meeting of audit committee is number of meeting conducted by audit committee of Indonesian public companies. The higher frequency of audit committee meeting is associated with better financial reporting quality and thus limit the risk of related party transactions that represent tunneling activities. Meeting's frequency of audit committee is measured by

FMAUC=	Total number of meetings held by audit committee

3.5 Data Analysis Method

In analyzing the data, this study uses SPSS 13 software. The analysis consists of multiple regression analysis, descriptive statistics, classic assumption and hypothesis testing.

3.5.1 Descriptive Statistic

According to Ghozali (2011), descriptive statistics provides a description of the data as shown from the average, standard deviation, variance, maximum, minimum. Hence, the descriptive statistics in this study is to provide some insights regarding each variable: corporate governance recommendations, expropriation proxied by related party transaction of sales and conventional corporate governance mechanism consist of board commissioner meeting, audit committee meeting and independent commissioner.

3.5.2 Multiple Regression Analysis

According to Ghozali (2011), regression analysis is the study of how dependent variable is related with one or more independent variables to estimate and predict the mean or average of the population. The regression equation is built to test the hypothesis and the regression analysis will be used to determine if the hypothesis proved significant or not. Thus, with the multiple regression analysis, the researcher will be able to measure the relationship between corporate governance and expropriation. The equations of multiples regression analysis are described below:

$$RPTs = \alpha + \beta 1GCG + \beta 2INDCOM + \beta 3FMBOC + \beta 4FMAUC + \varepsilon i$$

Note:

α	: Constanta
β	: Regression coefficient
ε	: Residual error
GCG	: Corporate governance recommendations
INDCOM	: Independent commissioner
FMBOC	: Frequency of board commissioner's meeting
FMAUC	: Frequency of audit committee's meeting

3.5.2.1 Coefficient of Determination

The coefficient of determination (R-squared) measures the model's ability to explain the variation of the dependent variable or how close the data are to the fitted regression line. The R-squared is always between 0 and 1. In general, the higher the R-squared or close to one means the independent variables provide almost all the necessary information to predict the variation of the dependent variable. While, the smaller of R-squared indicating the ability of the independent variables to explain the variation of dependent variable are very limited.

3.5.2.2 F-Test

The F-test is used to indicates whether there is independent variable that has significant effect on the dependent variable. The decision criteria are by comparing the F-value from the calculation with the value of F according to the table (F-table). When F-value is greater than F-table, it means that at least there is one independent variable that affects the dependent variable.

3.5.3 Classic Assumption

The regression model in this research should meet the classical assumption's condition in which there are no symptoms of normality, multicolinearity, and heteroscedasticity in order for the statistical test to be valid.

3.5.3.1 Normality Test

The purpose of normality test is used to check if the residuals or errors are normally distributed. Typically, to assess this assumption using the normal probability plot of the residuals and histogram. The normality assumption should be fulfilled in order for the statistical test to be valid.

3.5.3.2 Multicolinearity Test

Multicolinearity is a common problem of statistical phenomenon in which two or more independent variables are highly correlated, leading to unreliable result in a multiple regression model. A good regression model should not have correlation among the independent variables. Common measures for identifying multicolinearity are the tolerance value and the variance inflation factor (VIF) with common cutoff value of 0.10 tolerance value correspond to a VIF of 10. These measures indicate the degree to which one independent variable is explained by other independent variables (Sekaran *et al.*, 2013). If the tolerance value is > 0.10 and VIF is <10, thus it can be concluded that there is no multicollinearity among the independent variable in the regression model. Meanwhile, if the tolerance value is <0.10 and VIF is >10, it means that there is multicolinearity among the independent variable in the regression model (Ghozali, 2011).

3.5.3.3 Heteroscedasticity Test

Heteroscedasticity test is aim to test whether in the regression model, variants of residual is unequal within the observations. Heteroscedasticity test is done by using the plot graphic test by checking whether there is a particular pattern in scatterplot graph between variance X and Y or not. If the dots are spread randomly around 0 number on axis Y in the scatterplot graph, it can be concluded that there is no heteroscedasticity. Otherwise, if there is a particular dots pattern, thus it can be concluded that there is heteroscedasticity. A good regression model is a model which is free from heteroscedasticity within one observation to another, or in the other word, if the variance from residual observation with other observation constantly remains, it is called homoscedasticity (Ghozali, 2011).

3.5.4 Hypotheses Testing

The purpose of hypothesis testing is to answer the hypothesis that have been construct in chapter 2. These can be checked through statistical measurement called t-test. This research uses one tailed test so that the significance of the t-value (sig. t) should be divided by 2 to get the p value.

3.5.4.1 t-test

The t-test is basically to check if each independent variable has a significant effect on the dependent variable by comparing the t-value and t-table at significant level α = 5%. The assessment is as follows:

a. If t-value is > t-table or if sig.t is < α, it means that the independent variables significantly influence the dependent variable, H0 is rejected.

b. If t –value is < t-table or if sig. t is > α, it means that the independent variable has no significant effect on the dependent variable. H0 is accepted.

CHAPTER IV

RESULTS AND DISCUSSION

4.1 Descriptive Statistic

In this section the results of descriptive statistical analysis will be provided and discussed. The results are useful to make summary and provide some insights regarding each variable used in this research consisting corporate governance recommendations, independent board commissioner, board commissioner meeting frequency and audit committee meeting frequency. The descriptive statistics include average, standard deviation, maximum and minimum. The data of the descriptive statistics is demonstrated and summarized in the table 4.1

Table 4. 1

Descriptive Statistics

Variable	N	Minimum	Maximum	Mean	Standard Deviation
Related party transaction of sales (RPTs)	91	0.00	1.00	0.17	0.26
Corporate governance recommendations (GCG)	91	0.00	1.00	0.31	0.42
Independent Commissioner (INDCOM)	91	0.25	1.00	0.41	0.12
Frequency of board commissioner meeting (FMBOC)	91	0.00	30.00	7.10	5.16
Frequency of audit committee meeting (FMAUC)	91	0.00	35.00	6.79	6.15

Source: Appendix 3

Based on the table 4.1, the average of expropriation of Indonesian public companies proxied by related party transaction of sales is 17% with 0.26 for standard deviation. The standard deviation is greater than the mean which is means the gap of RPTs is high. The corporate governance recommendations (GCG) have an average of 31% with 0.42 for standard deviation. The standard deviation is greater than the mean which is means the gap of GCG is high. The independent of board commissioner (INDCOM) average is 41% with 0.12 standard deviation. Frequency of board commissioner meeting (FMBOC) average is 7.10 with 5.16 standard deviation. Frequency of audit committee meeting (FMAUC) average is 6.79 with 6.15 standard deviation. The standard deviation of INDCOM, FMBOC, FMAUC are lower than the mean or the mean gap is low. Most of the data shows that mean is larger than standard deviation except RPTs and GCG. It is not a problem because the number of data is large enough (more than 30 data). The large data tend to be normally distributed. So, this does not cause econometric problems.

4.2 Multiple Regression Analysis

The regression analysis is used to examine the relationship between corporate governance recommendations and mechanism on expropriation. The result of the multiple regression analysis is shown in table 4.2.

Table 4. 2

Result of multiple regression

Variable	Coefficients	t-value	F	R^2
Constant	-1.431	-1.323	15.616**	0.421
Corporate governance recommendations (GCG)	-4.919**	-3.488		
Independent Commissioner (INDCOM)	-0.888	-1.097		
Frequency of board commissioner meeting (FMBOC)	-0.823*	-2.246		
Frequency of audit committee meeting (FMAUC)	-1.030**	-3.356		

**Significant at 0.01 level *Significant at 0.05 level

Source: Appendix 4

The coefficient of determination is used to measure of how much the independent variable used in this research (GCG, INDCOM, FMBOC, FMAUC) contributed or influenced on the dependent variable which is related party transaction of sales (RPTs). Based on table 4.2, the coefficient of determination (R^2) is 0,421 in which means that 42,1% of the dependent variable (RPTs) is influenced by the independent variables (GCG, INDCOM, FMBOC, FMAUC). Meanwhile, the rest of 57.9% of the dependent variable (RPTs) is influenced by others independent variable which is not discussed in this research.

Based on the table 4.2, the result of F-value is 15.616 significant at 0.01 level. While the F-table is 2.209. Since F-value is > F-table which is 15.616 > 2.209 or the value of Sig. F (0.000) is < α (0.050). Thus, it can be concluded that at least there is one independent variable in the regression model that has significant effect on dependent variable (RPTs). They are corporate governance recommendations

(GCG), frequency of board commissioner meeting (FMBOC) and frequency of audit committee meeting (FMAUC).

4.3 Classic Assumption

The result of multiple regression is fit to the model because there are no violation of classical assumptions required such as normality of error, multicolinearity, heterocedastisity. Thus, the regression results are appropriate of being used to test the research hypothesis.

4.3.1 Normality Test

The normality test is used to check if the residuals or errors are normally distributed. Typically, to assess this assumption using the normal probability plot of the residuals and histogram. Based on appendix 4, it can be concluded that the residuals have normal distribution from the normal probability plot and histogram. Thus, the normality assumption is fulfilled and fit the model.

4.3.2 Multicolinearity Test

The purpose of multicolinearity test is in order for the regression model don't have correlation among the independent variables. The measurement to identify multicolinearity are the tolerance value and the variance inflation factor (VIF) with common cutoff value of 0.10 tolerance value correspond to a VIF of 10. If the tolerance value > 0.10 and VIF <10, thus it can be concluded that there is no multicollinearity among the independent variable in the regression model and vice versa. According to table 4.4, the tolerance value of each variable is more than 0.10

and VIF of each independent variable is lower than 10, thus it can be concluded that the regression model is free from multicolinearity.

Table 4. 3

Result of Multicolinearity Test

Variable	Collinearity Statistics	
	Tolerance	VIF
GCG	0.900	1.112
INDCOM	0.905	1.104
FMBOC	0.598	1.673
FMAUC	0.690	1.449

Source: Appendix 4

4.3.3 Heteroscedasticity Test

A good regression model is a model which is free from heteroscedasticity. Heteroscedasticity test is done using the plot graphic test by checking whether there is a particular pattern in scatterplot graph between variance X and Y or not. If the dots are spread randomly around 0 number on axis Y in the scatterplot graph, it can be concluded that there is no heteroscedasticity and vice versa. The result of heteroscedasticity test can be seen on appendix 4. Based on the appendix 4, the scatterplot diagram shows the dots are spread randomly and doesn't form a particular pattern. Thus, it can be concluded that the regression model is free from heteroscedasticity.

4.4 Hypotheses Testing

The purpose of hypothesis testing is to answer the hypothesis that have been construct in chapter 2. These can be checked through statistical measurement called t-test. This research used one tailed test so that the significance of the t-value (sig. t) should be divided by 2 to get the p value.

In summary, hypothesis 1, 3, and 4 which reveals that corporate governance recommendations, frequency of commissioner board meeting, and frequency of audit committee meeting negative affect to expropriation are supported by empirical evidence in this study. On the other hand, hypothesis 2 which reveals that number of independent commissioner does not affect to expropriation.

4.5 Discussion

Based on the statistical analysis presented in the previous sections and hypotheses that have been constructed in chapter 2, the following discussion regarding those results will be elaborated further and presented in this section. The discussion involves the influence of corporate governance recommendations, independent commissioner, frequency of board commissioner meeting, and frequency of audit committee meeting on expropriation.

4.5.1 The influence of corporate governance recommendations on expropriation

Based on the statistical results, this study shows significant causal relationship between corporate governance recommendations (GCG) and expropriation proxied by related party transaction of sales (RPTs). Therefore, the first hypothesis stated that corporate governance recommendations negative affect to expropriation is accepted. This means that corporate governance recommendations (GCG) work effectively in overcoming the expropriation in Indonesia. Overall, the result of this study is in line with the research by Claessens *et al.*, (2003), who stated that the conventional corporate governance mechanism used to control agency problem type I is less effective and not strong enough to mitigate the agency problems in Asia, therefore other type of corporate governance mechanism is necessary to complete the conventional corporate governance mechanism.

The corporate governance recommendations is a new measurement based on the new rule issued by OJK No. 32/SEOJK.04/2015 about the guidelines of corporate governance for public companies. It consists of 25 recommendations in 5 aspects and 8 principles. This rule is mandatory for all Indonesian public companies to disclose the recommendations by stating comply or implement in their annual report, otherwise if any of the recommendations haven't been met then they must disclose it properly in the annual report by explaining the reason. This rule becomes effective on 17th November 2015 in which the public companies are only required to disclose the recommendations in their annual report starting from the period ending on 31st December 2016.

The result of this research shows that corporate governance is an effective mechanism of shareholder protection in limiting the number of related party transaction of sales (RPTs) that represent expropriation in Indonesia which is in line with the agency theory.

4.5.2 The influence of independent commissioner on expropriation

Based on the statistical result, this study shows insignificant causal relationships between independent commissioner (INDCOM) and expropriation proxied by related party transaction of sales (RPTs). Therefore, the second hypothesis stated that independent commissioner negative affect to expropriation is rejected. This means that independent commissioner doesn't work effectively in overcoming the expropriation in Indonesia. It implied that number whether large or small does not enough to control and monitor related party transaction, but the quality of the independent commissioner is also important to control and monitor the process in the company. The number independent commissioner may only be added just to comply with the regulation. Instead, they are not competent and lack of quality in overcoming the expropriation in Indonesia. Moreover, the independent commissioner is elected by shareholders in a general meeting that it grants more power to controlling shareholders to appoint the persons they prefer. The controlling shareholders obviously would prefer to choose the person who are more inclined to agree with them though independent commissioner are technically independent in the eyes of law. Thus, it might affect how independent commissioner would behave considering his or her relationship with the company resulting in the lack of integrity (Chen, Wan and Zang, 2017). The result supports by previous study, Mustafa *et al.*, (2011) revealed that number independent board does not have relationship with the related party transactions, and these transactions would not neglect the interest of minority shareholders' rights. The result of this research is also in line with research by Sari *et al.*, (2014) that independent commissioner are not an effective corporate governance mechanism in preventing the tunneling activities in Indonesia.

This research is in contrast with prior research such as such as Beasley (1996), Dechow *et al.*, (1995) and agency theory that argued that board independence as a part of corporate governance mechanism will minimize expropriation against the minority shareholder. This is because the larger proportions of outside directors (commissioner) significantly reduce financial fraudulence, due to the strict controlling and monitoring from the independent commissioners. Therefore, the functions of independent commissioner can enhance the controlling and monitoring process in the company thus they would be able to reduce the level of expropriation of minority shareholder.

The research shows that some public companies haven't comply the regulations by having only 25% of independent commissioner. The lower the proportion of independent commissioner the lower the function of independent commissioner to control and monitor the related party transaction in company. According to the regulation of OJK number 33/POJK.04/2014, the public companies must have independent members in the board of commissioners . The public company must have minimum one independent commissioner or at least 30% of the board of commissioners.

4.5.3 The influence of frequency of board commissioner's meeting and frequency of audit committee's meeting on expropriation

Given that the statistical results in previous section show significant relationship of frequency of board commissioner meeting (FMBOC) and frequency of audit committee meeting (FMAUC) on expropriation proxied by related party transaction of sales (RPTs). Therefore, the third and fourth hypothesis stated that frequency of board commissioner meeting and frequency of audit committee meeting negative affect to expropriation is accepted. This means that frequency of board commissioner meeting and frequency of audit committee meeting work effectively in overcoming the expropriation in Indonesia. The result of this research is in line with research by Yin *et al.*, (2012) that the proportion of shares owned by majority shareholder is negatively associated with the number of audit committee meetings in Chinese listed companies. The more frequent meetings forces the company to have better financial reporting quality and thus limit the risk of related party transaction that represent expropriation. Moreover, a routine of audit committee meeting can reduce the agency problem and information asymmetry as the audit committee can provide a fair and timely financial information to the management, shareholders and potential investors (DeZoort *et al.*, 2002). The higher the frequency of audit committee meetings is often associated with lower financial statement fraud and lead to better audit quality (DeZoort *et al.*, 2002). While, the result of this result of this research is in contrast with research by Kamarudin *et al.*, (2014) shows that there is no relationship between frequency of audit committee meeting on corporate fraud in Malaysian listed companies.

The result of this research shows that frequency of board commissioner meeting and frequency of audit committee meeting are effective corporate governance mechanism of investor protection in limiting the number of related party transaction of sales (RPTs) that represent expropriation in Indonesia which is in line with the agency theory.. The more frequent the meeting, the more reliable the financial information provided to shareholders as well as the better the quality of auditing and accounting issues and thus it can reduce the possibility of financial fraud.

CHAPTER V

CONCLUSION, LIMITATION AND SUGGESTION

5.1 Conclusion

This research primarily aims to examine the effect of corporate governance on expropriation among Indonesian public companies. The independent variables used in this research are corporate governance recommendations, independent commissioner, frequency of board commissioner meeting and frequency of audit committee meeting. While, the dependent variable is expropriation proxied by related party transaction of sales (RPTs).

The findings of this study revealed that expropriation through RPTs could be minimized by corporate governance recommendations, frequency of board commissioner meeting and frequency of audit committee meeting in Indonesia. This implied that the recommendations show a better quality and disclosure in implementing the corporate governance. Moreover, the higher the meeting's frequency is associated with lower financial statement fraud and lead to better financial reporting quality and thus limit the risk of related party transactions that represent tunneling activities. Therefore, corporate governance recommendations, frequency of board commissioner meeting and frequency of audit committee meeting shows that corporate governance is an effective mechanism of shareholder protection in limiting the number of related party transaction of sales (RPTs) that represent expropriation in Indonesia which is in line with the agency theory.

However, result of this study shows that independent commissioner doesn't work effectively in overcoming expropriation in Indonesia. This implied the number of independent commissioner is not enough to control expropriation. Instead, quality of the independent commissioner should be competent to control and monitor the process in overcoming the expropriation of the company. The number of independent commissioner may only be added just to comply with the regulation. Moreover, it is possible that this independent board approved the RPT and assumed that these transactions would not neglect the interest of minority shareholders' rights.

5.2 Research Limitation

There is a limitation existing in this research. This study only employs 2016 data, due to the application of corporate governance recommendations rules that apply from that year. That is the number of unused samples which does not fulfill the selection criteria such as company with foreign currency of 51 companies, unavailability of annual report of 57 companies, and annual report without corporate governance recommendations of 364 companies. These unused samples might have effect in the statistical analysis.

5.3 Suggestion for Future Research

Given the limitation above, future researchers are expected to employ a longer period of observation in order to get the insight of real conditions associated with the corporate governance practice and expropriation in Indonesia.

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APPENDIX

Appendix 1. List of Samples

No	Code	Company Name
1	ABBA	Mahaka Media Tbk
2	ACST	PT Acset Indonusa Tbk.
3	AGII	PT Aneka Gas Industri Tbk.
4	AKPI	Argha Karya Prima Ind. Tbk
5	AKRA	AKR Corporindo Tbk
6	ALMI	Alumindo Light Metal Industry Tbk
7	ALTO	Tri Banyan Tirta Tbk
8	AMFG	Asahimas Flat Glass Tbk
9	ARNA	Arwana Citramulia Tbk
10	ASGR	Astra Graphia Tbk
11	ASII	Astra International Tbk
12	ASRI	ALAM SUTERA REALTY Tbk
13	BAJA	Saranacentral Bajatama Tbk
14	BATA	Sepatu Bata Tbk
15	BEST	Bekasi Fajar Industrial Estate Tbk
16	BISI	BISI INTERNATIONAL Tbk
17	BKSL	Sentul City Tbk
18	BTON	Betonjaya Manunggal Tbk
19	BUDI	PT Budi Starch & Sweetener Tbk.
20	BUKK	Bukaka Teknik Utama Tbk
21	CINT	PT Chitose Internasional Tbk
22	CITA	Cita Mineral Investindo Tbk
23	CLPI	Colorpak Indonesia Tbk
24	CPIN	Charoen Pokphand Indonesia Tbk
25	CPRO	Central Proteina Prima Tbk
26	CSAP	Catur Sentosa Adiprana Tbk
27	DAJK	PT Dwi Aneka Jaya Kemasindo Tbk.
28	DLTA	Delta Djakarta Tbk
29	DVLA	Darya-Varia Laboratoria Tbk
30	ELSA	Elnusa Tbk
31	EMDE	Megapolitan Developments Tbk
32	EPMT	Enseval Putra Megatrading Tbk
33	GDST	Gunawan Dianjaya Steel Tbk

34	GPRA	Perdana Gapura Prima Tbk

35	HMSP	HM Sampoerna Tbk
36	ICBP	Indofood CBP Sukses Makmur Tbk
37	IMAS	Indomobil Sukses Internasional Tbk
38	IMPC	PT Impack Pratama Industri Tbk
39	INAF	Indofarma Tbk
40	INAI	Indal Aluminium Industry Tbk
41	INCI	Intanwijaya Internasional Tbk
42	INDF	Indofood Sukses Makmur Tbk
43	INTA	Intraco Penta Tbk
44	INTP	Indocement Tunggal Prakarsa Tbk
45	JECC	Jembo Cable Company Tbk
46	JPRS	Jaya Pari Steel Tbk
47	KAEF	Kimia Farma (Persero) Tbk
48	KICI	Kedaung Indah Can Tbk
49	KLBF	Kalbe Farma Tbk
50	LION	Lion Metal Works Tbk
51	LMSH	Lionmesh Prima Tbk
52	LSIP	PP London Sumatra Indonesia Tbk
53	MBTO	Martina Berto Tbk
54	MDLN	Modernland Realty Ltd Tbk
55	MERK	Merck Tbk
56	META	Nusantara Infrastructure Tbk
57	MICE	Multi Indocitra Tbk
58	MIDI	Midi Utama Indonesia Tbk
59	MKNT	PT Mitra Komunikasi Nusantara Tbk.
60	MLBI	Multi Bintang Indonesia Tbk
61	MLPL	Multipolar Tbk
62	MLPT	PT Multipolar Technology Tbk.
63	MTDL	Metrodata Electronics Tbk
64	MYOR	Mayora Indah Tbk
65	PBSA	PT Paramita Bangun Sarana Tbk
66	PTBA	Bukit Asam Tbk
67	RICY	Ricky Putra Globalindo Tbk
68	RMBA	Bentoel International Investama Tbk
69	ROTI	Nippon Indosari Corpindo Tbk
70	SCCO	Supreme Cable Manufacturing Corporation Tbk
71	SIDO	PT Industri Jamu dan Farmasi Sido Muncul Tbk
72	SIMP	Siwani Makmur Tbk
73	SIPD	Sierad Produce Tbk

74	SKBM	Sekar Bumi Tbk
75	SKLT	Sekar Laut Tbk
76	SMCB	Holcim Indonesia Tbk
77	SMAR	SMART Tbk
78	SMGR	Semen Indonesia (Persero) Tbk
79	SMRA	PT Summarecon Agung Tbk
80	SMSM	Selamat Sempurna Tbk
81	SRSN	Indo Acidatama Tbk
82	TBLA	Tunas Baru Lampung Tbk
83	TCID	Mandom Indonesia Tbk
84	TRIS	Trisula International Tbk
85	TOTO	Surya Toto Indonesia Tbk
86	TSPC	Tempo Scan Pacific Tbk
87	TURI	Tunas Ridean Tbk
88	UNVR	Unilever Indonesia Tbk
89	WEHA	PT WEHA Transportasi Indonesia Tbk
90	WICO	Wicaksana Overseas International Tbk
91	YPAS	Yanaprima Hastapersada Tbk

Appendix 2. Research Data

Y1	X1	X2	X3	X4
RPTs	GCG	INDCOM	FMBOC	FMAUC
0.0021	1	0.50	6	4
0.1457	0.76	0.33	6	12
0.7234	0.6	0.33	4	3
0.1778	0.92	0.50	4	20
0.0782	0.84	0.36	6	7
0.0350	0.96	0.33	4	6
0.1802	0.92	0.40	6	5
0.0158	0.96	0.33	6	7
0.1253	0.96	0.50	15	14
0.7355	0.4	0.33	1	4
0.1104	0.88	0.33	6	4
0.0087	0.96	0.33	6	6
0.0021	1	0.50	14	12
0.6289	0.72	0.40	7	10
0.0488	0.92	0.40	4	4
0.0422	0.92	0.43	6	5
0.0085	0.92	0.33	11	15
0.0157	0.92	0.43	6	4
0.0031	1	0.67	9	6
0.0155	0.96	0.43	6	4
0.1986	0.92	0.33	4	16
0.0341	0.92	0.40	12	12
0.0099	0.84	0.50	6	13
0.0029	0.92	0.33	6	6
0.5389	0.84	0.40	3	4
0.4013	0.68	0.33	6	5
0.0006	1	1.00	30	21
0.6573	0.8	0.50	4	4
0.1712	0.88	0.29	12	4
0.0155	0.92	0.50	11	5
0.8676	0.84	0.50	7	4
0.9355	0.52	0.40	2	3
0.0560	0.96	0.80	6	4
0.0039	0	0.25	4	12
0.0720	0	0.33	6	6
0.0009	0	0.33	12	14
0.0039	0	0.33	11	4

0.0241	0	0.50	9	4
0.7349	0	0.50	6	0
0.0652	0	0.40	3	10
0.0113	0	0.50	4	4
0.0077	0	0.50	6	4
0.2061	0	0.50	6	4
1.0000	0	0.33	0	0
0.0306	0	0.33	2	4
0.0020	0	0.33	12	5
0.0163	0	0.50	8	0
0.0006	0	0.33	12	31
0.1950	0	0.43	1	4
0.0151	0	0.40	15	4
0.0778	0	0.33	6	5
0.0157	0	0.33	4	8
0.0045	0	0.50	12	5
0.7666	0	0.33	7	0
0.0848	0	0.40	6	4
0.4511	0	0.33	5	4
0.0988	0	0.60	6	4
0.0003	0	0.33	12	12
0.2346	0	0.33	4	4
0.2622	0	0.33	6	4
0.0006	0	0.33	12	20
0.4897	0	0.33	9	6
0.8580	0	0.33	0	0
0.0047	0	0.40	3	4
0.7620	0	0.33	3	4
0.1581	0	0.33	6	6
0.0002	0	0.50	24	35
0.0019	0	0.33	6	12
0.0027	0	0.33	6	6
0.0415	0	0.40	6	4
0.3010	0	0.50	4	4
0.0014	0	0.33	5	4
0.0016	0	0.33	2	2
0.0496	0	0.33	13	5
0.0522	0	0.33	4	5
0.0119	0	0.50	6	4
0.6046	0	0.33	4	4
0.0006	0	1.00	9	12

0.3150	0	0.33	9	4
0.1443	0	0.33	6	10
0.0165	0	0.33	4	0
0.0289	0	0.43	6	5
0.0017	0	0.50	4	4
0.0063	0	0.38	6	4
0.3657	0	0.33	0	0
0.1094	0	0.33	4	4
0.0001	0	0.60	30	22
0.0152	0	0.40	4	4
0.0100	0	0.33	6	2
0.0074	0	0.40	12	4
0.0586	0	0.33	7	5

Appendix 3. Descriptive Statistics

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
RPTs	91	.00	1.00	.1736	.26485
GCG	91	.00	1.00	.3138	.42675
INDCOM	91	.25	1.00	.4101	.12781
FMBOC	91	.00	30.00	7.1099	5.16710
FMAUC	91	.00	35.00	6.7912	6.15272
Valid N (listwise)	91				

Appendix 4. Result of Multiple Regression

Variables Entered/Removed[b]

Model	Variables Entered	Variables Removed	Method
1	FMAUC, GCG, INDCOM, FMBOC[a]	.	Enter

a. All requested variables entered.

b. Dependent Variable: RPTs

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.649[a]	.421	.394	1.81045

a. Predictors: (Constant), FMAUC, GCG, INDCOM, FMBOC

b. Dependent Variable: RPTs

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	204.736	4	51.184	15.616	.000[a]
	Residual	281.884	86	3.278		
	Total	486.619	90			

a. Predictors: (Constant), FMAUC, GCG, INDCOM, FMBOC

b. Dependent Variable: RPTs

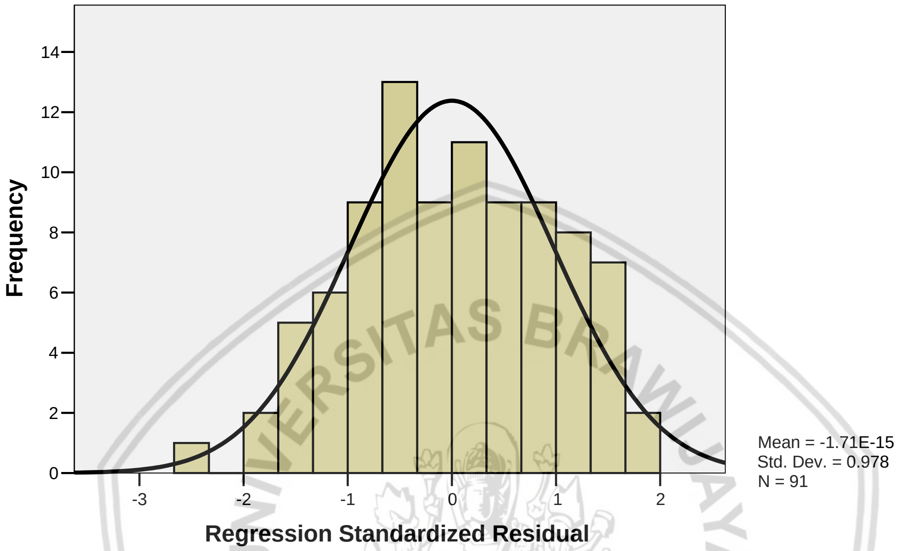
Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	-1.431	1.082		-1.323	.189		
	GCG	-4.919	1.410	-.302	-3.488	.001	.900	1.112
	INDCOM	-.888	.809	-.095	-1.097	.276	.905	1.104
	FMBOC	-.823	.366	-.238	-2.246	.027	.598	1.673
	FMAUC	-1.030	.307	-.332	-3.356	.001	.690	1.449

a. Dependent Variable: RPTs

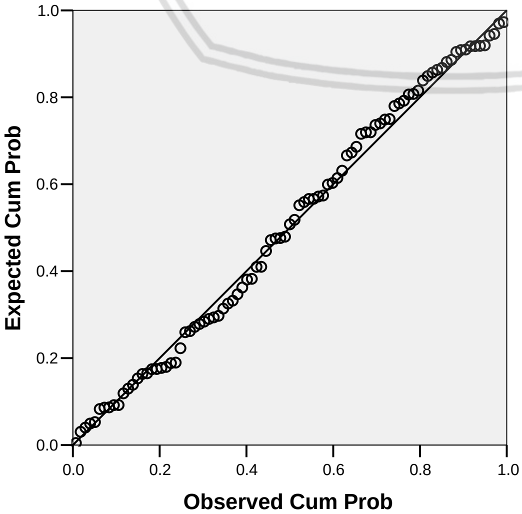
Histogram

Dependent Variable: RPTs

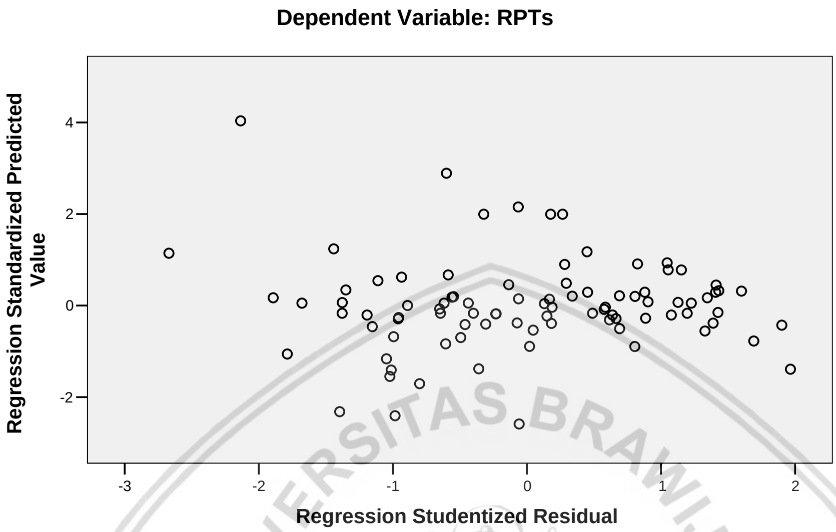


Normal P-P Plot of Regression Standardized Residual

Dependent Variable: RPTs



Scatterplot



Appendix 5. Result of Linearity Test

Model Summary and Parameter Estimates

Dependent Variable: RPTs

Equation	Model Summary					Parameter Estimates	
	R Square	F	df1	df2	Sig.	Constant	b1
Linear	.142	14.761	1	89	.000	-3.822	-6.147

The independent variable is GCG.

Model Summary and Parameter Estimates

Dependent Variable: RPTs

Equation	Model Summary					Parameter Estimates	
	R Square	F	df1	df2	Sig.	Constant	b1
Linear	.060	5.711	1	89	.019	-5.588	-2.304

The independent variable is INDCOM.

Model Summary and Parameter Estimates

Dependent Variable: RPTs

Equation	Model Summary					Parameter Estimates	
	R Square	F	df1	df2	Sig.	Constant	b1
Linear	.278	34.302	1	89	.000	-.266	-1.820

The independent variable is FMBOC.

Model Summary and Parameter Estimates

Dependent Variable: RPTs

Equation	Model Summary					Parameter Estimates	
	R Square	F	df1	df2	Sig.	Constant	b1
Linear	.227	26.124	1	89	.000	-1.029	-1.480

The independent variable is FMAUC.